

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 FRB-01 INR-05

NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 STR-01 NIC-01 AGR-05 NSC-05

SS-15 CEA-01 SAJ-01 FEAE-00 OES-03 INT-05 DODE-00

PA-01 USIA-06 PRS-01 SWF-01 IO-10 BIB-01 /103 W

----- 024570

R 111137Z DEC 74

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2382

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

AMEMBASSY VIENNA

AMCONGEN MUNICH

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E.O. 11652: N/A

TAGS: ECON, EEWT, HU

SUBJ: CENTRAL COMMITTEE COMMUNIQUE ON 1974 ECONOMIC
PERFORMANCE AND 1975 PLAN

VIENNA FOR EWTC AND AGRICULTURE ATTACHE

1. SUMMARY: CENTRAL COMMITTEE REVIEW OF 1974'S ECONOMIC
RESULTS FOUND PERFORMANCE GENERALLY SATISFACTORY ALTHOUGH
ACKNOWLEDGING EXISTENCE OF NUMBER OF WEAK SPOTS WHICH
COULD SLOW PACE OF ECONOMIC GROWTH IN YEARS TO COME.
WHILE DOCUMENT APPLAUDS 8 PERCENT GROWTH IN INDUSTRIAL PRODUCTION,
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6 PERCENT RISE IN NATIONAL INCOME, BETTER THAN EXPECTED JUMP IN

AGRICULTURAL OUTPUT, AND FULFILLMENT OF GOAL FOR OVERALL INVESTMENT, IT ALSO NOTES UNFAVORABLE BALANCE OF TRADE WITH WEST, FAILURE TO OPTIMALLY UTILIZE EXPENSIVE MODERN MACHINERY AND DETRIMENTAL EFFECTS OF HIGHER PRICES FOR IMPORTED ENERGY AND OTHER RAW MATERIALS. GOALS ANNOUNCED FOR 1975 PLAN ARE TYPICALLY MODERATE ONES WITH NATIONAL INCOME, INDUSTRIAL OUTPUT, AGRICULTURAL PRODUCTION, AND INVESTMENTS EXPECTED TO GROW AT A SOMEWHAT SLOWER PACE THAN 1974 RESULTS. MOST EYE-CATCHING FEATURE OF 1975 PLAN IS SLOWER PLANNED RATE OF GROWTH OF REAL WAGES, INCOMES, AND CONSUMPTION WHICH ALL RISE BY ONLY 2.5 PERCENT, 3.5 PERCENT, AND 4 PERCENT, RESPECTIVELY, A 2 PERCENT DROP FROM 1974.

END SUMMARY

2. CENTRAL COMMITTEE IN ITS COMMUNIQUE BASED ON REPORT BY PARTY SECRETARY KAROLY NEMETH STRESSED FACT THAT ECONOMY WAS DEVELOPING ALONG LINES SET FORTH IN FOURTH FIVE-YEAR PLAN. NATIONAL INCOME THIS YEAR WOULD RISE 6 PERCENT, INDUSTRIAL PRODUCTION - 8 PERCENT, INVESTMENTS - 7 PERCENT TO 118.5 BILLION FORINTS, WHILE REAL INCOMES AND CONSUMPTION WOULD GO UP 4.5 PERCENT, 5.5 PERCENT, AND 6 PERCENT, RESPECTIVELY. CC PARTICULARLY STRESSED FACT THAT 8 PERCENT INDUSTRIAL PRODUCTION INCREASE ACHIEVED ALMOST EXCLUSIVELY FROM PRODUCTIVITY RISES AND NOTED IMPROVEMENTS IN PRODUCTION ORGANIZATION AND THE EFFECTIVENESS OF PREPARATORY WORK.

3. VALUE OF AGRICULTURAL PRODUCTION WAS ALSO EXPECTED TO RISE AT LEAST 4 PERCENT IN SPITE OF PROBLEMS WITH WEATHER WHICH WERE ENCOUNTERED THIS YEAR. CORN AND WHEAT CROPS WERE DESCRIBED AS GOOD AND UNSPECIFIED QUANTITIES OF BOTH COMMODITIES WOULD BE AVAILABLE FOR EXPORT. THIS FALL'S GRAPE AND SUNFLOWER HARVESTS WERE CITED AS PRINCIPAL VICTIMS OF THIS FALL'S ADVERSE WEATHER CONDITIONS. PRODUCTION OF SLAUGHTER ANIMALS ROSE 12 PERCENT WHILE THAT OF MILK WAS UP 5 PERCENT.

4. ON NEGATIVE SIDE, COMMUNIQUE NOTED LARGE NEGATIVE BALANCE OF TRADE WITH NON-CEMA COUNTRIES WHICH LARGELY BLAMED ON HIGHER PRICE RISES FOR IMPORTED OIL AND OTHER RAW MATERIALS COMPARED WITH RELATIVELY SMALLER INCREASES IN REVENUES FOR HUNGARIAN EXPORTS. IN ADDITION TO TRADE DEFICIT, IT WAS LIMITED OFFICIAL USE

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ALSO CONCEDED THAT THE PACE OF COMPLETION OF LARGE INVESTMENTS REMAINED UNSATISFACTORY. ALTHOUGH TARGET FIGURE OF 118.5 BILLION FORINTS TOTAL INVESTMENT WOULD BE ACHIEVED BY END OF 1974, THIS BEING REACHED DUE TO APPROXIMATELY 5 PERCENT OVERFULFILLMENT OF INVESTMENT PLANS BY INDIVIDUAL ENTERPRISES, AN INCREASE ALMOST CERTAINLY PARTIALLY INFLUENCED BY WORLD INFLATION. OTHER WEAK SPOTS MENTIONED WERE BUILDING INDUSTRIES' CONTINUED INABILITY TO SATISFY

DEMAND IN SPITE OF 6 PERCENT GROWTH, HIGHER THAN DESIRABLE LEVEL
OF INVENTORIES, LESS THAN OPTIMAL USE OF EXPENSIVE MACHINERY
AND SHORTAGES OF CERTAIN BASIC MATERIALS.

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5. CONCERNING GOALS FOR 1975, THE CENTRAL COMMITTEE SET
MODERATE GROWTH TARGETS FOR NATIONAL INCOME (5-5.5 PERCENT),
INDUSTRIAL PRODUCTION (6 PERCENT), AGRICULTURAL PRODUCTION (3-4
PERCENT), AND INVESTMENT (9-10 PERCENT TO 128-130 BILLION
FORINTS). MOST INTERESTING STATISTICS ARE
LOW RATE OF INCREASE FOR PER CAPITA REAL WAGES, INCOMES,
AND CONSUMPTION WHICH WILL RISE AT 2.5 PERCENT, 3.5 PERCENT,
AND 4 PERCENT -- 2 PERCENT LOWER THAN INCREASES ACHIEVED IN 1974.
CONSUMER PRICE INDEX WHICH OFFICIALLY WENT UP LESS THAN 2 PERCENT

IN 1974 WILL RISE AT RATE OF 3.6 PERCENT IN 1975,
A LEVEL CONTEMPLATED IN ORIGINAL FIVE-YEAR PLAN.
SPECIAL EMPHASIS IS PLACED ON NEED TO CONSERVE ENERGY
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AND OTHER RAW MATERIALS THROUGH BETTER ORGANIZATION
AS WELL AS NECESSITY TO REDUCE UNECONOMIC PRODUCTION AND
IMPROVE THE QUALITY AND COMPETITIVENESS OF GOODS PRODUCED.
PLANNED INVESTMENTS MUST BE RANKED IN ORDER OF ECONOMIC
AND SOCIAL IMPORTANCE WITH PREFERENCE GIVEN TO QUICK
COMPLETION OF THOSE INVESTMENTS ALREADY IN PROGRESS.
IN RELATIONS WITH HUNGARY'S TRADING PARTNERS, CC REPORT
CALLS FOR A TIGHTENING OF ECONOMIC TIES WITH SOVIET UNION
AND OTHER CEMA COUNTRIES, AND A SLOWER GROWTH RATE FOR
WESTERN IMPORTS THAN FOR HUNGARIAN EXPORTS TO WEST.

6. COMMENT: CENTRAL COMMITTEE COMMUNIQUE IMPRESSES US
AS MODERATE STATEMENT AND CLEAR INDICATION THAT RADICAL
MEASURES OR CHANGES ARE UNLIKELY TO BE EMPLOYED IN ECONOMY
DURING COMING YEAR. GRADUAL TREND TOWARDS INCREASED
CENTRAL DIRECTION IS LIKELY TO CONTINUE IN 1975, AS INDICATED
BY PROMINENT DEC 6 NEPSZABADSAG EDITORIAL ON CC COMMUNIQUE
CALLING ON MINISTRIES TO MORE CLOSELY REGULATE ENTERPRISES
BOTH IN DOMESTIC AND FOREIGN TRADE ACTIVITIES.
ALTHOUGH REDUCTION IN INCREASES FOR CONSUMPTION AND REAL
WAGES ARE HINTS TO THE HUNGARIAN CONSUMER THAT HE WILL
HAVE TO SATISFY HIMSELF WITH SLOWER RATE OF IMPROVEMENT OF
HIS STANDARD OF LIVING, CC REPORT TENDS TO GLOSS OVER DEPTH
OF PROBLEM FACED BY HUNGARY AS SMALL RESOURCE-POOR COUNTRY
HIGHLY DEPENDENT ON FOREIGN TRADE. FOR EXAMPLE, THE
COMMUNIQUE FAILED TO MENTION THE 14 PERCENT DETERIORATION IN
HUNGARY'S TERMS OF TRADE WITH NON-CEMA COUNTRIES DURING LAST
TWO YEARS AND THE PROBABILITY THAT THIS WILL BE EXTREMELY
DIFFICULT TO REVERSE. WHILE PHASING OUT INEFFICIENT PRO-
DUCTION AND SWIFTER COMPLETION OF LARGE INVESTMENTS WOULD
NO DOUBT HELP HUNGARY'S LONG RUN POSITION CONSIDERABLY,
THE CLOSING OF LESS ECONOMIC PRODUCTION FACILITIES HAS
PROVED IN PAST TO BE AN EXCEPTIONALLY THORNY TASK AS HAS
DEALING WITH PROBLEM OF LATE COMPLETION OF LARGE INVEST-
MENTS. WHILE THE REDUCTION IN RATE OF GROWTH FOR CAPITALIST
IMPORTS COULD BE ACCOMPLISHED EASILY ENOUGH TIGHT CREDIT
POLICY OR MORE RESTRICTIVE APPROACH TO IMPORT LICENSE
ISSUANCE, ANY RADICAL REDUCTION IN WESTERN IMPORTS COULD
SEVERELY SET BACK HUNGARIAN EFFORTS TO DEVELOP MODERN,
COMPETITIVE INDUSTRIES. IT IS PROBABLE, THEREFORE, THAT
MOST LIKELY CANDIDATES WILL BE IN CONSUMER GOODS AREA,
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ESPECIALLY AS MINFIN FALUVEGI RECENTLY FIRMLY SPECIFIED HUNGARY'S NEED TO CONTINUE EXPANSION OF IMPORTS FROM EAST FOR GROWTH OF THE ECONOMY. FINALLY, HUNGARIANS MAY FIND IT INCREASINGLY DIFFICULT TO INCREASE EXPORTS TO WEST IN A CLIMATE OF ECONOMIC RECESSION. WHILE HUNGARIANS ARE LIKELY TO BE ABLE TO FULFILL MODERATE GOALS SET FORTH FOR 1975, THEY WILL ONLY MEET IMPORT TARGETS TO MODERNIZE THE ECONOMY THROUGH CONTINUED FOREIGN BORROWING.
PEDERSEN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, COMMUNIQUE
Control Number: n/a
Copy: SINGLE
Draft Date: 11 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BUDAPE03407
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740359-0725
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741245/aaaabmbg.tel
Line Count: 234
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAR 2002 by elyme>; APPROVED <28 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CENTRAL COMMITTEE COMMUNIQUE ON 1974 ECONOMIC PERFORMANCE AND 1975 PLAN
TAGS: ECON, EEWT, HU
To: STATE COM
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005